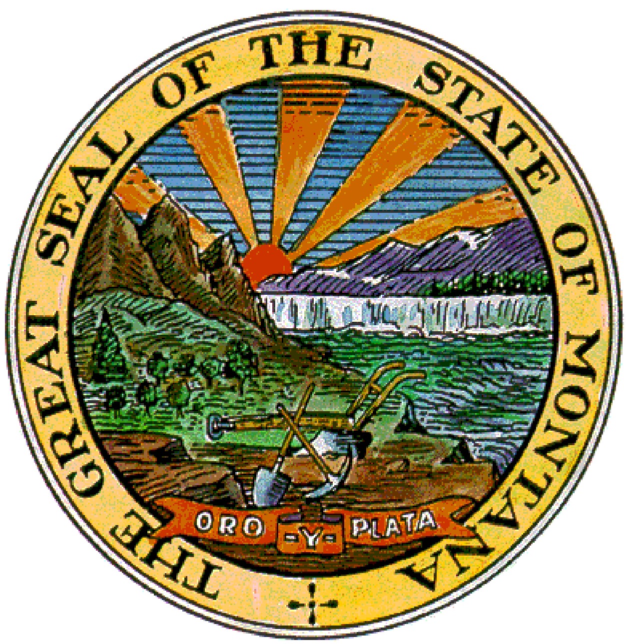
Montana

Comprehensive Annual Financial Report



June 30, 1996

MONTANA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
for the fiscal year ended June 30, 1996

Prepared By:

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STATE OF MONTANA
SELECTED STATE OFFICIALS

EXECUTIVE

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Governor

Dennis Rehberg

Lieutenant Governor

JUDICIAL

J. A. Turnage

Chief Justice

LEGISLATIVE

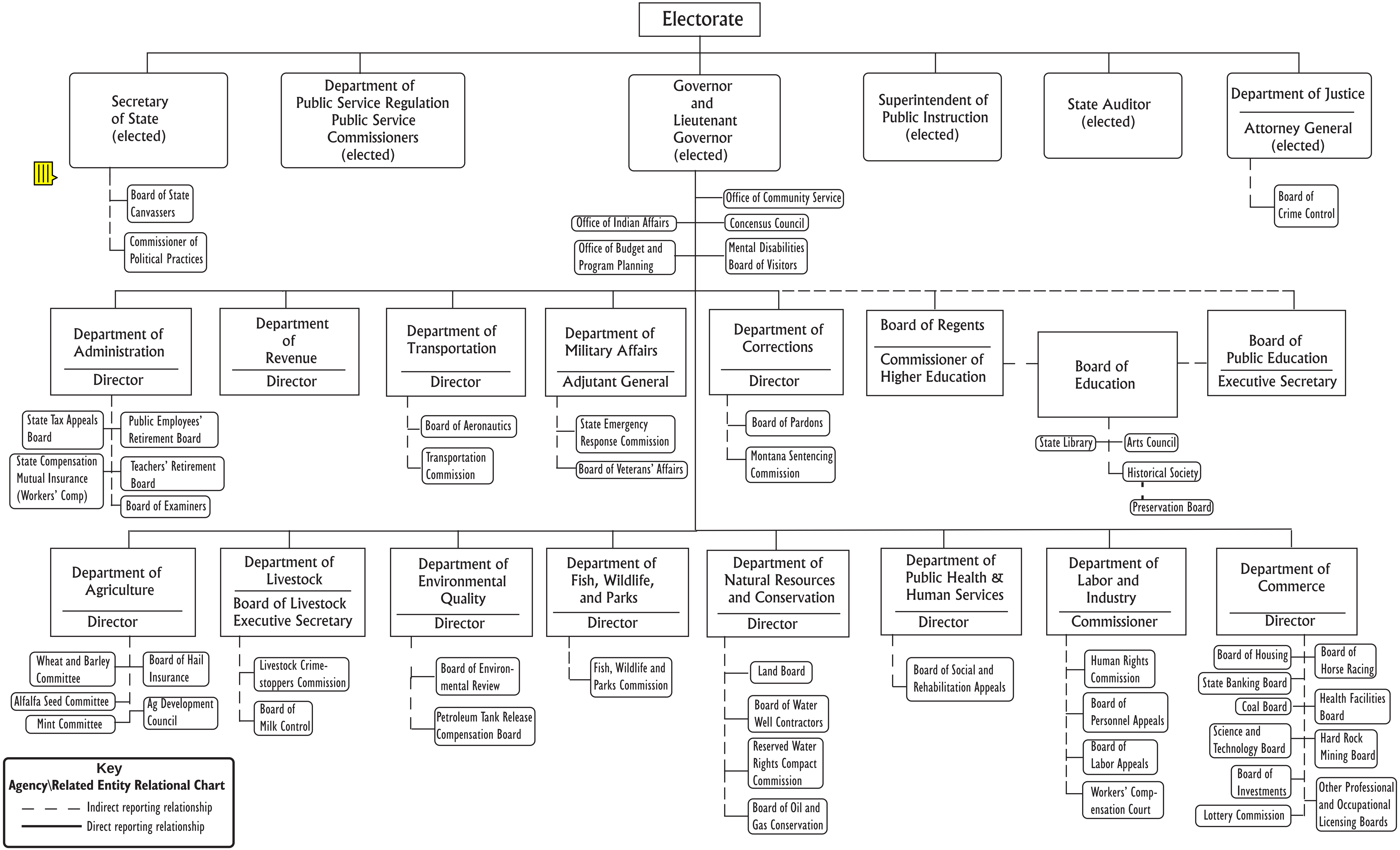
Bob Brown

President of the Senate

John Mercer

Speaker of the House

Montana Executive Branch



STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1996

TABLE OF CONTENTS

STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1996

TABLE OF CONTENTS (Continued)

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December 16, 1996

To the Citizens, Governor and Members of the Legislature of the State of Montana:

In accordance with Section 17-2-110, Montana Code Annotated (MCA), I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 1996. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

Description of the CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

This CAFR is divided into three main sections: introductory, financial and statistical. The introductory section includes an organization chart for the State, a table of contents and this transmittal letter. The financial section contains the independent auditor's report, the general purpose financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic and demographic data.

This report includes all funds and account groups of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the State is able to impose its will on that organization or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Housing Authority, Health Facilities Authority, State Compensation Insurance Fund (Old and New), Teachers' Retirement System and the Colleges, Universities and Colleges of Technology. These component units are discretely presented in the State's financial statements.

Economic Condition and Outlook

Although Montana underwent a record economic expansion in the first four years of the 1990's, this is the second year of an anticipated slowdown. Montana's nonfarm labor income average annual growth rate declined to 2.8 percent in 1995, down from 3.7 percent in 1994 and the 4.0 to 5.0 percent growth rates in the early 1990's. Paul Polzin, director of the University of Montana Bureau of Business and Economic Research, projects the growth rate will continue to drop further to 1.5 to 2.0 percent between 1996 and 1998. The reasons for the slowdown include slower growth in "high-tech" and light manufacturing industries; an end to the construction boom; federal government decreases; and slower non-resident travel growth.

Personal income grew 3.4 percent in 1995 but is expected to increase only 1.0 to 2.0 percent per year from 1996 to 1998. Slower growth in transfer payments and dividends, interest, and rents, as well as the overall economic slowdown, has reduced personal income growth. Montana's non-farm wage and salary jobs increased by 10,700 in 1995, a slightly smaller increase than the 12,700 jobs increase experienced in 1994. The job market is expected to increase at a more moderate rate of 7,000 jobs per year in the next few years.

Montana's population continues to increase at a record pace. The 1995 population, estimated to be 870,000, reflects an increase of 70,000 or 8.75 percent since 1990. The 1.75 percent average annual increase in the 1990's compares to the meager 0.2 percent average annual population growth for the state in the 1980's. Montana's population is expected to continue to rise for the next year or two, followed by corresponding downward corrections later in the decade as the state's spurt of economic growth slackens.

Despite the moderating growth rates, the underlying fundamentals of the Montana economy remain strong. Montana's earlier economic growth was primarily due to the 1993 record wheat harvest and the continuing growth in the construction industry sustained by the relative stability in Montana's other natural resource industries including wood and wood product manufacturing, particularly in western Montana, and mineral and oil/gas exploration, extraction and processing, statewide. Service sector industries, particularly related to health care, recreation and tourism and government were a growing source of income in Montana. Polzin continues to assert that the long-term prospects for agriculture appear strong with the expectation that the current low cattle prices will improve as we pass through this phase of the cycle. Most traditional Montana manufacturing industries will continue to have stable or increasing employment and payrolls. Long-run forecasts also indicate an increase in worldwide demand for mineral and related products.

Major Initiatives

For the Current Year

Two major departmental reorganizations occurred which brought about significant organizational changes for natural resources and human service agencies. The reorganization created two new agencies: 1) the Department of Environmental Quality (DEQ) which consolidates functions related to environmental and reclamation issues and regulation that were formerly handled within three agencies and 2) the Department of Public Health and Human Services (DPHHS) which consolidates the operation of the State's public welfare and human services programs along with the operation of its institutions for the disabled and mentally ill. The reorganization eliminated four agencies: the Department of State Lands, the Department of Health and Environmental Sciences (DHES), the Department of Family Services (DFS) and the Department of Social and Rehabilitative Services (SRS). The reorganization changed the mission and scope of two other retained agencies: the Department of Natural Resources and Conservation which absorbed most of the functions of the former Department of State Lands and the former Department of Corrections and Human Services which was renamed the Department of Corrections. The institutions that were part of the Human Services side of the former department were transferred to DPHHS and the new department 's focus is on the operation of all correctional facilities and programs including those for juvenile offenders which were formerly included in DFS.

Montana obtained waivers from the federal government to initiate changes to AFDC and Medicaid in order to implement its major welfare reform proposal or Families Achieving Independence in Montana (FAIM). FAIM consists of the Pathways Program, a time-limited benefit program similar to the current AFDC program; community service; a job supplement program; benefit changes including reduced Medicaid benefits for AFDC adults; eligibility criteria changes to the AFDC program; enhance child support enforcement; change in the culture of the welfare office from one of eligibility determination to helping families avoid AFDC or helping them to understand the temporary nature of the program and access service to leave the system as rapidly as possible. A condition of federal approval of the program was that it must be cost neutral to the federal government.

Montana also obtained waivers from the federal government to implement its Mental Health Managed Care initiative. The actual implementation of the initiative will occur in fiscal year 1997. The initiative will establish Medicaid eligibility for mental health benefits for families and persons with incomes at or below 200 percent of the federal poverty level; determine eligibility by income only (no resource limits will be imposed); charge families with higher incomes for services based on a sliding fee scale; and include services to adults and children. In addition, Montana expanded the physical health managed care program entering into a contract with an outside provider to administer HMO and the Passport managed care programs.

The 1995 legislature authorized $194.9 million of capital projects for the 1997 biennium, resulting in the largest building program ever approved. Projects started in fiscal year 1996 include the renovation of the Capitol. The $14 million authorized for the project will be used to pay for structural repairs of the deteriorating Capitol including restoration of the sandstone exterior, patching and reroofing the roof, upgrading the electrical system and installing a new heating and cooling system. The legislature also authorized a commission to raise $6 million in private donations to pay for the cost of historic restoration of the building's interior. The 1995 legislature also authorized $4.3 million for prison expansion and $9.0 million to fund construction of Regional Correctional and Law Enforcement Facilities in the state. These last two projects are intended to address the problem of an exploding inmate population that far exceeds the maximum level of the current prison.

The 1995 legislature also provided a net of $51 million in tax relief to taxpayers through a combination of tax changes and tax rebates. In November 1995, $21.5 million in income tax rebates were paid to those taxpayers filing an income tax return for the 1994 tax year. These rebates represented the amount of unreserved fund balance in the General Fund and School Equalization Account that exceeded $24.4 million at the end of fiscal year 1995. In addition, Montana paid $5.3 million in property tax rebates to certain qualifying homeowners. Another payment will be made in November 1996. Beginning January 1, 1996, the State implemented a plan to reduce personal property tax rates on business equipment and machinery from 9 percent to 6 percent over a three year period and put into effect several statute changes that created additional deductions and exemptions for income taxpayers along with an inflation-adjusted minimum standard deduction. Finally, the legislature established a new oil and natural gas production tax that consolidates the number of tax rates applied to oil and gas production, simplifies the tax return process and accelerates the collection of the Local Government Severance Taxes.

For the Future
Although the 1997 Legislature will deal with a number of issues, the primary focus will be on corrections, information technology issues and property tax reappraisal. The proposed 1998-1999 budget includes a recommended 53 percent increase in spending on the prison system. That growth from $103 million to $158 million does not include $41 million in new construction proposed for the prison system. The increase for corrections represents two-thirds of the $80 million overall increase in general fund spending proposed in the new budget being prepared for the 1997 Legislature. The increase is needed to handle an inmate population that is expected to explode by 30 percent between the middle of next year and mid-1999. Currently the state prison houses 1,328 inmates in a facility with a designed capacity of 850. The state transferred 250 inmates to a private correctional facility in Texas and an additional 88 inmates are housed in county jails. The absolute maximum number of inmates that can be housed in the prison is 1,344; estimates for 1997 anticipate an inmate population at the State prison of 1,352. In addition, the problem of juvenile crime is getting worse which means the State will need to find ways of handling an influx of under-age offenders. In the past two years, the number of juveniles committing violent crimes has jumped by 41 percent.

The State has proposed a $55.05 million bonding program to fund major information technology projects including $16.5 million to reengineer the state's legacy systems into an integrated management information system. The project includes the reengineering and integrating of the state's accounting, financial reporting, fixed asset, purchasing and procurement, budgeting and human resource information systems. The bonding package also includes funding for the reengineering, modernization and integration of the income tax and property tax reporting systems; the development and implementation of an accounts receivable/revenue processing center; a property parcel mapping system; the consolidation of the unemployment insurance and Department of Revenue reporting for income tax withholding, old fund liability tax and unemployment insurance contributions; and a university system technology initiative.

Proposals to help ease the potentially staggering impact of property reappraisal will dominate the upcoming session. Preliminary figures show the value of homes and business property has shot up, on average, 43 percent across the state from January 1, 1992, to January 1, 1996. Options on ways to ease the impact of the huge gain in property values will be developed by the Department of Revenue for consideration by the legislature.

Financial Information

Montana's Statewide Budgeting and Accounting System (SBAS) is a centrally maintained, fully computerized, double-entry accounting system. SBAS records are computer-edited.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles.

In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the legislature or established administratively as provided for by state law. Appropriations are required by state law for the General, Special Revenue, and Capital Projects Funds. The level of budgetary control is generally established by program and fund. SBAS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority and/or available cash. SBAS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Governmental Functions

Revenue sources for general governmental functions, which include the General, Special Revenue, Debt Service, and Capital Projects Funds, increased 3.5 percent from fiscal year 1995 to fiscal year 1996. Revenues from various sources for fiscal year 1996, and the amount and percentage of increases and decreases in relation to prior year revenues, are shown in the following table:

Revenue Source	Amount (in thousands)	1996 Percent of Total	Increase (Decrease) from 1995	Percent Increase (Decrease)
Licenses/Permits	$ 110,043	5.2%	$ 3,934	3.7%
Taxes	997,874	47.4	(82,655)	(7.7)
Charges for Services/Fines/Forfeits	66,367	3.1	(3,414)	(4.9)
Investment Earnings	28,594	1.4	(673)	(2.3)
Sale of Documents/Etc.	6,776	0.3	(12,211)	(64.3)
Rentals/Leases/Royalties	220	-	40	22.2
Contributions/Premiums	4,165	0.2	392	10.4
Grants/Contracts/Donations	9,232	0.4	784	9.3
Federal	880,300	41.8	165,671	23.2
Federal Indirect Cost Recoveries	1,685	0.1	(917)	(35.2)
Other Revenues	1,552	0.1	417	36.7
Total Revenues	$2,106,808	100.0	$ 71,368	

An explanation of significant changes by revenue source follows:

Licenses/Permits - The increase in revenue was primarily due to 1) a $2.8 million increase in wildlife hunting permits and licenses and 2) a $2.3 million increase in vehicle licenses and permits offset by 3) a $1.2 million decrease in the video gambling license fee as a result of an accounting change in which the portion of gambling fees distributed to local governments are accounted for in an expendable trust fund rather than the state special revenue fund.

Taxes - The decrease in revenues was primarily due to 1) a $56.5 million decrease in various taxes as a result of an accounting change in which the portion of these taxes that is distributed to local government entities is accounted for in a fiduciary fund rather than the state special revenue fund and 2) a $48.0 million decrease in payroll tax revenue as a result of accounting for all payroll tax revenue in a proprietary fund rather than the state special revenue fund. These decreases are offset by 1) a $13.2 million increase in natural gas and diesel fuel taxes; 2) a $7.2 million increase in individual income taxes; and 2) a $1.1 million increase in higher education millage taxes.

Charges for Services/Fines/Forfeits - The decrease in revenue was primarily due to a $3.3 million decrease in fire suppression costs for which the state is reimbursed.

Sale of Documents/Mdse./Property - The decrease in revenue was primarily due to a $13.9 million dollar decrease that resulted from a change in the method used to record and account for stores inventory by the Montana Department of Transportation offset by an increase in sales of the Montana Code Annotated (MCA); sales of the MCA occur biennially in even years following legislative sessions which occur in odd-numbered years.

Federal - The increase in revenue was primarily due to the implementation of GASB Statement 24 resulting in 1) the recording of $58.8 million in food stamp receipts not previously recorded and 2) a $57.5 million increase in federal assistance money received by the Office of Public Instruction previously accounted for as pass-through money in the agency fund.

Total expenditures for all general governmental functions increased 2.7 percent from fiscal year 1995 to fiscal year 1996. Expenditures by function for fiscal year 1996, and the amount and percentage of increases or decreases in relation to the prior year amounts, are shown in the following table:

Expenditure Function	Amount (in thousands)	1996 Percent of Total	Increase (Decrease) from 1995	Percent Increase (Decrease)
General Government	$ 71,699	3.4%	$ (68,874)	(49.0)%
Public Safety/Corrections	119,221	5.6	553	.5
Transportation	322,142	15.1	24,434	8.2
Health/Social Services	770,506	36.2	97,176	14.4
Education/Cultural	551,604	25.9	60,060	12.2
Resource Development/Recreation	69,264	3.2	(24,045)	(25.8)
Economic Development/Assistance	106,792	5.0	6,344	6.3
Debt Service	60,960	2.9	(25,431)	(29.4)
Capital Outlay	57,020	2.7	(14,703)	(20.5)
Total Expenditures	$2,129,208	100.0	$ 55,514	

An explanation of significant changes by expenditure function follows:

General Government - The expenditure decrease was primarily due to 1) an accounting change in which $44.2 million in tax distributions to local governments were accounted for in the expendable trust fund rather than the state special revenue fund; 2) a $21.5 million dollar decrease in benefits and claims expenditures that resulted from the recording of a one-time tax rebate in fiscal year 1995; and 3) a $2.4 million decrease in legislative operating costs due to legislative sessions being held biennially in odd-numbered years.

Transportation - Expenditure increases were primarily due to the expansion of pavement protection and maintenance programs for state highways along with increased construction activity associated with the receipt of additional federal highway construction funds.

Health/Social Services - The expenditure increase was primarily due to the recording of $58.8 million in food stamp disbursements as a result of implementing GASB Statement 24.

Education - The expenditure increase was primarily due to 1) accounting for the distribution of $57.5 million in federal assistance to schools in the federal special revenue fund rather than an agency fund as in prior years as a result of implementing GASB Statement 24 and 2) changes in the cost of operations for the following programs: Commissioner of Higher Education $2.0 million; School for the Deaf and Blind $0.6 million; State Library $0.6 million; and the Montana Arts Council $(0.3) million.

Resource Development/Recreation - The expenditure decrease was primarily due to a $23.8 million decrease in fire suppression costs incurred by the Department of Natural Resources and Conservation.

Economic Development/Assistance - The expenditure increase was primarily due to the accounting for an additional $9.8 million in fiscal year 1995 encumbered expenditures in fiscal year 1996 in the State Auditor's Office and the Community Development Block Grant program at the Department of Commerce.

Debt Service - The expenditure decrease was primarily due to the reduction in overall long-term debt as a result of the early redemption of $39.7 million of Highway Revenue Bonds in fiscal year 1995.

Capital Outlay - Expenditures decreased because numerous projects appropriated for in the 1993 legislature were completed in fiscal year 1995.

General Fund Balance

The unreserved fund balance of the General Fund increased from $25.527 million at June 30, 1995, to $30.145 million at June 30, 1996. This represents an increase of $4.618 million, or 18.1 percent. This increase is primarily due to unanticipated increases in individual income tax revenues.

Enterprise Operations

The State of Montana provides numerous goods and services to the public on a user charge basis, similar to a private business. Profits from two of these operations, the State Liquor Stores and the State Lottery, are used to fund other services provided by the State. Following is a summary of the operating results of these two entities in fiscal year 1996:

State Liquor Stores - The State regulates the sale, importation, distribution and manufacturing of alcoholic beverages in Montana. A portion of the liquor sales and excise and license taxes collected through this function along with any profits generated through the administration of this regulatory function, including those from the operation of the liquor stores, are transferred to the General Fund. In fiscal year 1996, $15.073 million was transferred to the General Fund, compared to $11.348 million in fiscal year 1995.

State Lottery - The Montana State Lottery was created by the electorate through the passage of Referendum 100 during the 1986 general election. Profits generated by this operation are transferred to the general fund and appropriated to the Office of Public Instruction (OPI) for distribution to local school districts and the Board of Crime Control (BCC) for grants to counties for youth detention services. Profits for fiscal year 1996 were $7.8 million with OPI receiving 90.9 percent and BCC 9.1 percent of the net revenue.

Pension Trust Fund Operations

The State contributes to eight retirement systems and is the administrator of one additional system. The two largest systems in terms of dollars contributed and employees covered are the Public Employees' Retirement System and the Teachers' Retirement System. Montana elected to implement GASB Statement 25 - Financial Reporting for Defined Benefit Pension Plans and note Disclosures for Defined contribution Plans and GASB Statement 27 - Accounting for Pensions by State and Local Governmental Employers early. The implementation of these two statements resulted in the recording of a prior period adjustment $321.9 million in the pension trust funds and $242.5 million in the component unit pension trust fund in order to restate beginning fund balance as a result of recording investments at market rather than at cost. The funded actuarial accrued liability ratio for all systems continued to improve with the exception of the Judges' Retirement System. Legislation has been proposed for the upcoming legislative session to take care of the unfunded liability of the Judges' Retirement System.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investors Service (Aa) and Standard & Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue. General obligation debt decreased from $78.00 million at June 30, 1995, to $69.62 million at June 30, 1996.

The ratio of general obligation debt to assessed valuation and the amount of general obligation debt per capita are:

	Amount (in thousands)	Ratio of Debt to 1995 Assessed Value	State Debt Per Capita*
General Obligation Debt	$69,620	0.18%	$80.02

* Based on 1995 estimated Montana population.

Cash Management

The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments has sole authority to invest State funds. The Board operates under the "prudent person principle" which requires the Board to 1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; 2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharge duties solely in the interest of and for the benefit of the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and higher education funds only), commercial paper, bankers' acceptances, interest bearing deposits in Montana financial institutions, real estate and any other investment in a Montana business that continues existing jobs or creates new jobs. These investments are subject to statutory restrictions for quality and size of holdings.

Unless otherwise provided by law, treasury cash is pooled for investment regardless of the fund from which it is deposited and the pool's investment earnings are credited to the General Fund. The Board reported total investment income from investments under its management of $355.7 million, an increase of 18.5 percent from the $300.1 million earned last year. The book value of Board-managed investments dropped $2 million or less than 1.0 percent to $4.75 billion at fiscal year-end 1996. The Board publishes an annual audited report of all its investment activity. That report can be referenced for more in-depth investment information.

In order to provide cash to support expenditures from the General Fund, pending the receipt of taxes and revenues, the Board of Examiners, upon the recommendation of the Department of Administration, issued $59.5 million in Tax and Revenue Anticipation Notes in October 1996. These notes will be redeemed by the State in June 1997.

Risk Management

The State of Montana provides benefit coverage for injured state employees through participation in the State Compensation Insurance Fund (State Fund). The State Fund is a nonprofit, independent public corporation which is managed and controlled by a five-member board of directors. The board members are appointed by the Governor for four-year terms. Funding is primarily derived from the premiums paid by policyholders.

The 1991 Legislature passed legislation authorizing the Board of Investments to issue up to $220 million in bonds to provide further funding for the State Fund - Old and to utilize the employer payroll tax to redeem the bonds issued. The employer payroll tax, which provides funding for bond payments, has been increased and extended to employees and the self-employed. On July 15, 1991, $142.095 million in bonds were issued payable from and secured by the employer payroll tax revenues. The amount outstanding on June 30, 1996, was $97.885 million. On October 27, 1993, the Board issued its second series of payroll tax bonds in the principal amount of $32.5 million, all of which are outstanding as of June 30, 1996.

On July 24, 1995, and March 26, 1996, the State Fund applied $21,495,949 and $13,211,766, respectively, of Old Fund Liability Tax (OFLT) collections to defease $33,955,000 of the Series 1991 Payroll Tax Bonds. On September 24, 1996, the Board of Directors of the State fund declared a dividend payable to the Old fund not to exceed $109 million from excess surplus funds. On October 3, 1996, the State fund applied $80,061,243 of the $109 million dividend plus $11,322,812 of Debt Service Reserve funds and $8,000,000 of excess OFLT collections not required to pay claims to defease the remaining portion of the Series 1991 Payroll Tax Bonds.

At June 30, 1996, liabilities for the State Fund - Old exceeded assets by $355.1 million. The actuarially determined liability for unpaid claims, including those which were incurred but not reported, decreased to $248.8 million undiscounted. This represents a decrease of $46.9 million in estimated claims liability from fiscal year 1995. The percentage of this liability belonging to the state as a participant is unknown. For the State Fund - New, assets exceeded liabilities by $219.8 million at June 30, 1996. This represents an increase of $150.2 million over fiscal year 1995.

The State maintains self-insurance plans for employee comprehensive medical and dental coverage and state property. Under the State Employee Group Benefits Plan the State assumes all the risk for claims incurred by State employees, elected officials, retirees and their dependents. Premiums are collected through payroll deductions,

deductions through the Public Employees' Retirement System and self-payment. For the period ending June 30, 1996, the plan reported retained earnings of $24.73 million, an increase of $0.94 million over June 30, 1995.

The Montana University System Group Benefits Plan provides medical, dental, and vision insurance coverage to employees of the Montana University System and their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. United of Omaha is the claims administrator for the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. For the period ending June 30, 1996, the plan reported retained earnings of $4.22 million, a decrease of $0.99 million over June 30, 1995.

The State's property insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and state-administered foreclosure housing units. The State self-insures the $150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The state also self-insures against losses of equipment below $150,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects over $1.8 billion of state-owned buildings and contents. The flood and earthquake liability limit is $100 million per occurrence with a $1.0 million deductible for earthquakes and a $0.5 million deductible for floods. Premiums for the plan are collected from all State agencies, including component units. Based on the most recent actuarial report prepared by Tillinghast and issued for the period July 1, 1988 through June 30, 1996, a liability of $15.0 million, discounted at 14 percent, is recorded in the accompanying financial statements for estimated claims including those incurred but not reported. This represents a decrease of $4.3 million in estimated claims liability from fiscal year 1995.

Independent Audit

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the Legislative Audit Division. The Legislative Auditor is appointed by and reports to the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 1996.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1995. This was the ninth consecutive year that the State received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program requirements; we are submitting it to GFOA to determine its eligibility for another Certificate.

Acknowledgments

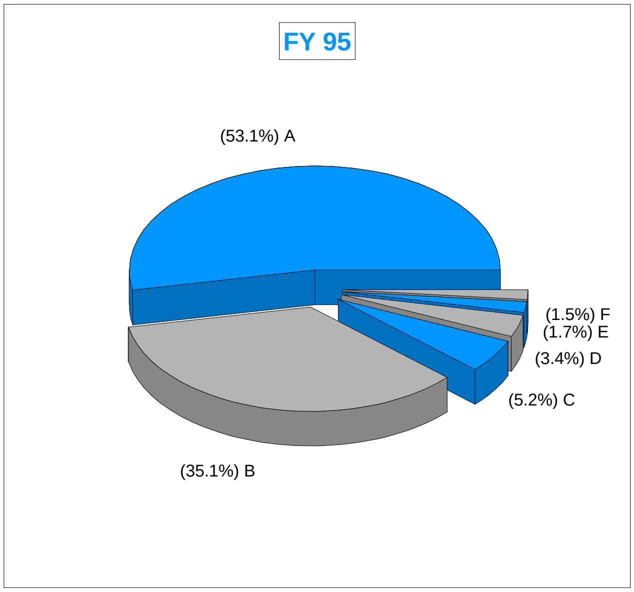
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Accounting Bureau and the cooperation of accounting personnel at the individual State agencies. I would like to express my appreciation to Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the legislature and all State agencies for their interest and support in planning and conducting the financial operations of Montana in a professionally responsible and progressive manner.

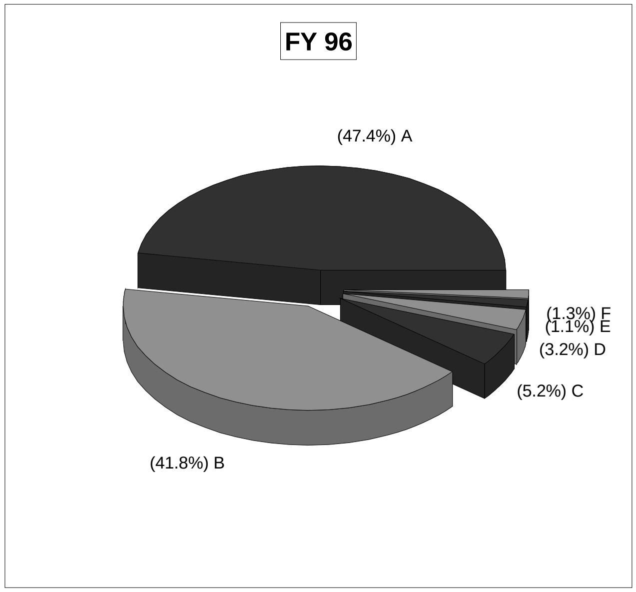
Respectfully submitted,

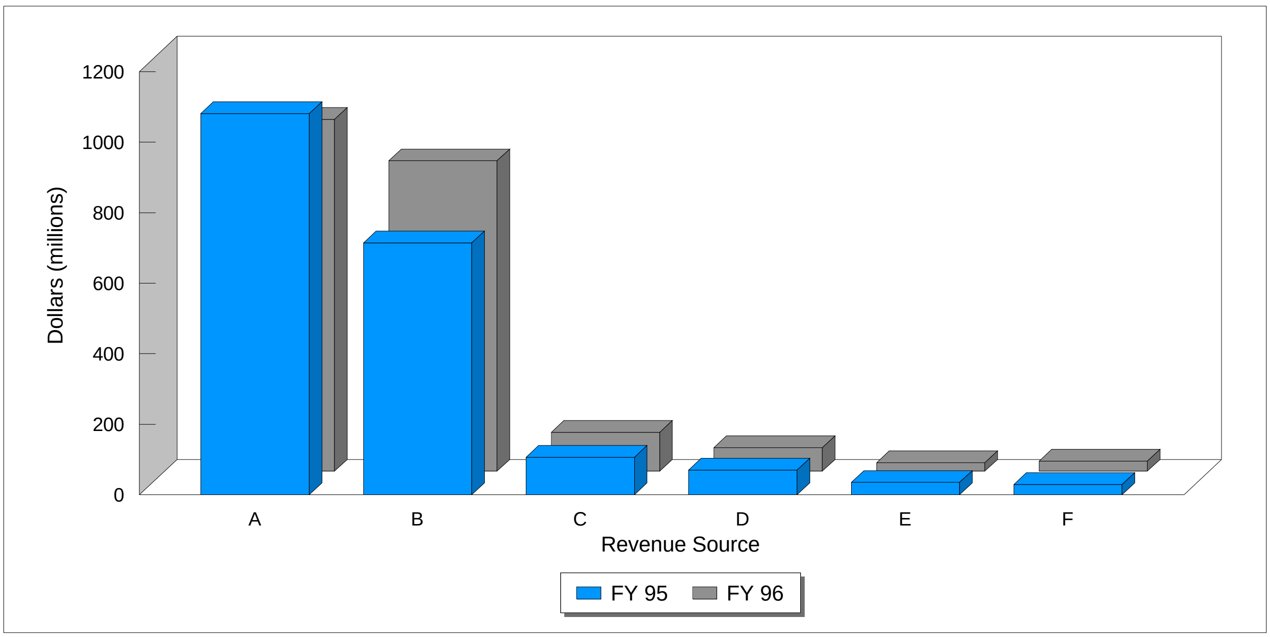
(Signature on File)

Lois Menzies, Director
Department of Administration

State of Montana
Revenues by Source
All Governmental Fund Types



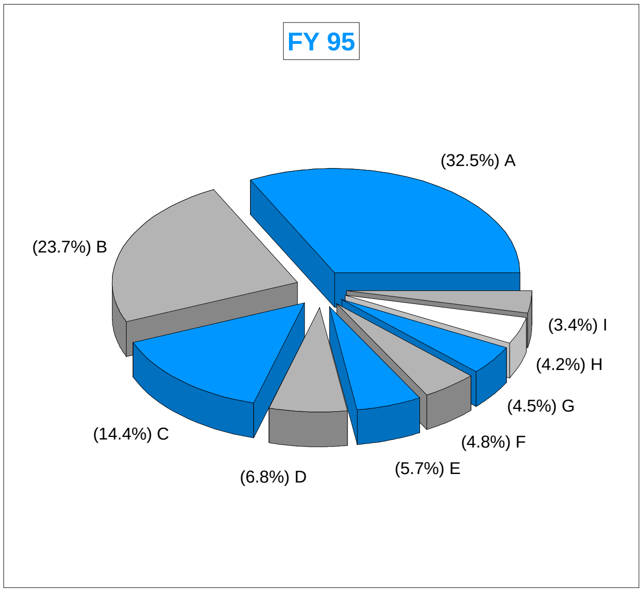


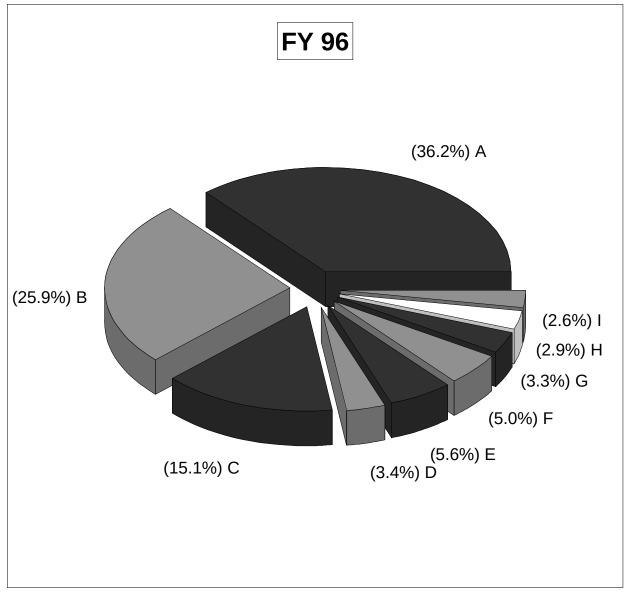


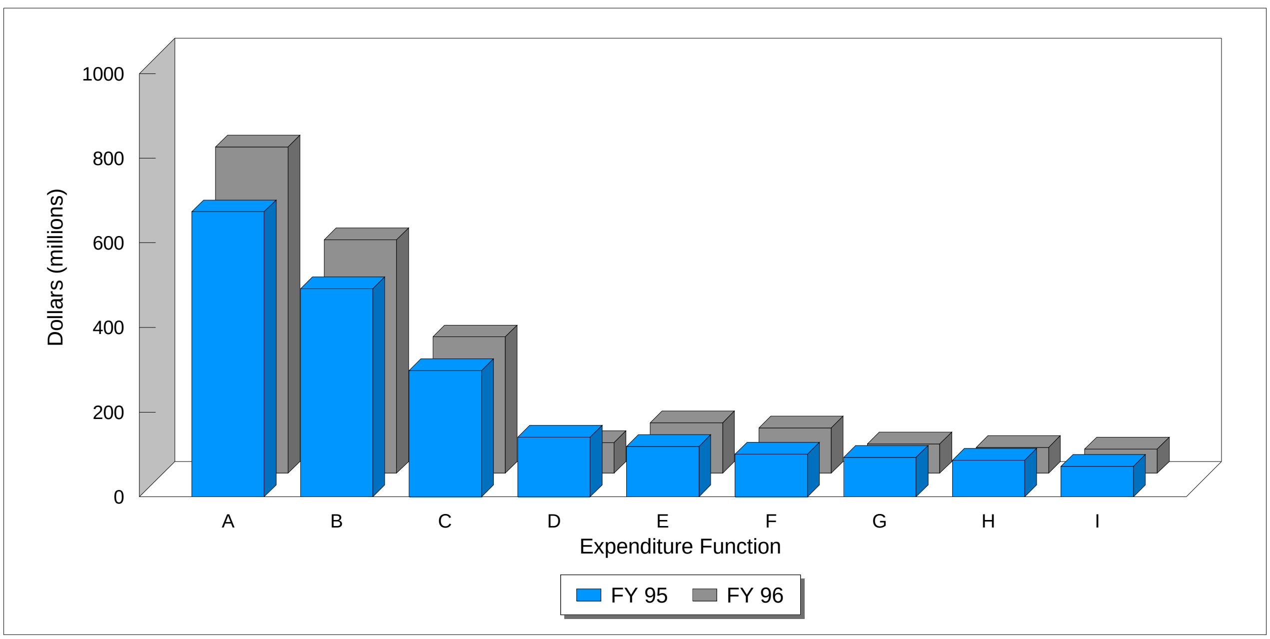
Legend:

(A) Taxes
(B) Federal
(C) Licenses/Permits
(D) Charges for Services/Fines/Forfeits
(E) Other Revenues (includes contributions, premiums, rentals, leases, royalties, grants, contracts, donations, federal indirect cost recoveries and sale of documents, merchandise and property)
(F) Investment Earnings

State of Montana
Expenditures by Function
All Governmental Fund Types







Legend:

(A) Health/Social Services	**(D) General Government**	**(G) Resource Dev/Recreation**
(B) Educational/Cultural	**(E) Public Safety/Corrections**	**(H) Debt Service**
(C) Transportation	**(F) Economic Development/Assistance**	**(I) Capital Outlay**

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Arthur R. Lynch
President

Jeffrey L. Esser
Executive Director